

Message Text

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INFO OCT-01 EA-11 NEA-10 ISO-00 DRC-01 AID-20 CEA-02

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INFO AMEMBASSY ANKARA

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AMEMBASSY BELGRADE

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FOR ASST SECY STOESSEL

E.O. 11652: GDS

TAGS: PFOR ENRG OECD

SUBJECT: QUARTERLY TRENDS REPORT: OECD

REF: STOESSEL-BROWN LETTER, DECEMBER 4

1. SUMMARY. NEW URGENCY AND NEW DIRECTIONS WHICH DEVELOPMENTS IN MIDDLE EAST HAVE BROUGHT TO OECD COOPERATION ON ENERGY AND ECONOMIC POLICY QUESTIONS DURING THE PAST QUARTER WILL UNDOUBTEDLY CONTINUE TO DOMINATE THE ORGANIZATION DURING THE NEXT SEVERAL MONTHS. THE KEY QUESTION FROM AN OECD PERSPECTIVE IS HOW THE CHALLENGE OF ENERGY SHORTAGES AND THREATENED ECONOMIC DISRUPTION WILL BE MET: WHETHER OECD MEMBER COUNTRIES WILL HAVE THE CAPABILITY AND POLITICAL WILL TO STRENGTHEN AND FULLY UTILIZE THE MEANS OF MEETING COMMON ECONOMIC PROBLEMS COOPERATIVELY, OR WHETHER NARROWLY BASED REACTIONS WILL LEAD TO WEAKENING OF THE HABITS AND INSTITUTIONS OF ECONOMIC COOPERATION. THE PROPOSAL FOR AN ENERGY ACTION GROUP HAS OPENED UP NEW POSSIBILITIES FOR OECD GOVERNMENTS TO SHAKE LOOSE FROM ESTABLISHED POSITIONS AND MOVE TOWARD MORE CONSTRUCTIVE AND COOPERATIVE ACTION. END SUMMARY.

2. THE OIL PRODUCERS' ANNOUNCEMENTS ON OIL PRICES AND SUPPLIES DURING THE PAST WEEK HAVE CHANGED THE CONTEXT IN WHICH EACH OECD MEMBER GOVERNMENT MUST DECIDE TO WHAT DEGREE INTERNATIONAL COOPERATION IS IN ITS NATIONAL INTEREST. THE PRICE ACTIONS, AS WELL AS CONCLUSIONS CONCERNING U.S.-ARAB RELATIONS DRAWN FROM THE U.S. POSTURE AT THE GENEVA CONFERENCE, SHOULD BLUR SOME OF THE DISTINCTIONS THAT HAVE HINDERED A MORE GENERAL POSITIVE SPIRIT OF COOPERATION TO DATE; THE IMPACT OF PRODUCER-COUNTRY MEASURES ON PRICES, AT *EAST, IS NO SELECTIVE BETWEEN *COUNTRIES "FRIENDLY" AND "UNFRIENDLY" TO THE *ARABS. THE HIGHER OIL PRICES WILL BRING SUBSTANTIAL NEW PRESSURES ON ECONOMIC MANAGEMENT IN OECD COUNTRIES, HOWEVER, AND RAISE DIFFICULT QUESTIONS OF HOW TO COPE WITH THE PRICE RISES IN WAYS THAT WILL MITIGATE RATHER THAN EXACERBATE THE TOTAL EFFECT ON THE OECD AREA.

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3. THE OECD ANALYSES OF THE OCTOBER PRICE RISES LED TO THE CONCLUSION THAT EVEN THOSE INCREASES WOULD ADD SIGNIFICANTLY TO RATES OF INFLATION OF CLOSE TO 10 PERCENT A YEAR THAT ARE ALREADY A MOST SERIOUS PROBLEM FOR VIRTUALLY ALL OECD MEMBER COUNTRIES. SUPPLY CUTBACKS AFFECTING ECONOMIC ACTIVITY FURTHER COMPLICATE THE PROBLEMS OF POLICYMAKERS IN MANY OECD COUNTRIES, WHO ARE FACED WITH THE DILEMMA OF HOW TO CURB RAMPANT INFLATION WHILE SIMULTANEOUSLY MITIGATING DECLINING OUTPUT, SECTORAL DISTURBANCES AND RISING UNEMPLOYMENT, AND MAINTAINING COMPETITIVENESS OF EXPORTS IN A LESS EXPANSIVE WORLD MARKET.

4. THE OECD ECONOMIC POLICY COMMITTEE AND ITS WORKING PARTY 3 ON BALANCE OF PAYMENTS WILL LOOK WITH GREATER PRECISION

IN THE NEW YEAR AT THE LIKELY CONSEQUENCES OF THE PRICE RISES AND SUPPLY LIMITATIONS, SEEKING TO IDENTIFY THE MOST CONSTRUCTIVE POLICY OPTIONS TO PURSUE. PRELIMINARY INDICATIONS ARE THAT THE LATEST PRICE HIKES WILL HAVE A FURTHER VERY SUBSTANTIAL IMPACT ON OVER-ALL PRICE LEVELS. EVEN MORE IMPORTANT, THE IMPACT ON TRADE AND PAYMENTS COULD BE DRAMATIC AND SHARPLY UNEVEN AMONG OECD COUNTRIES. THE UNEVEN EFFECTS OF MUCH HIGHER OIL PRICES, TAKING INTO ACCOUNT DEPENDENCE ON IMPORTED OIL AS WELL AS LIKELY REFLOWS OF FUNDS FROM THE PRODUCERS TO THE CONSUMER COUNTRIES FOR GOODS, SERVICES AND INVESTMENT, WILL PUT A STRAIN ON COOPERATION AMONG OECD COUNTRIES. THE DANGER, ALREADY POINTED TO IN THE OECD, IS THAT MEMBER COUNTRIES, IN THE FACE OF MUCH HIGHER OIL IMPORT BILLS, WILL TURN TO NATIONAL RATHER THAN COOPERATIVE APPROACHES IN ATTEMPTS TO PROTECT THEIR TRADE AND PAYMENTS BALANCES BY COMPETITIVE DEVALUATIONS, IMPORT RESTRAINTS, EXPORT MEASURES, AND THE LIKE.

5. ON THE OIL SUPPLY SIDE, AN EMERGENCY OIL-SHARING SCHEME HAS LONG EXISTED AMONG EUROPEAN OECD COUNTRIES. MOST EUROPEAN COUNTRIES HAVE BEEN UNWILLING TO ACTIVATE IT, HOWEVER, DESPITE THE PRODUCTION CUTBACKS AND EMBARGOES SINCE OCTOBER, FOR FEAR OF PROVOKING ARAB REACTIONS. THEY HAVE, IN FACT, REFUSED TO MOVE OVERTLY TOWARD FORMAL OIL SHARING EVEN TO THE EXTENT OF CALLING A MEETING OF THE OECD'S INTERNATIONAL INDUSTRY ADVISORY BOARD TO HELP IN INFORMATION COLLECTION AND ANALYSIS, LEAVING THE ORGANIZATION DEPENDENT ON LESS FORMAL (BUT MODERATELY SATISFACTORY) MEANS OF GATHERING AND PROCESSING DATA.
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6. AT THIS POINT, THE FOCUS OF OECD OIL POLICY CONSIDERATIONS IS LIKELY TO SHIFT STRONGLY TO THE QUESTION OF PRICE. AS ONE CONSEQUENCE, IT IS LIKELY THAT OECD MEMBERS IN THE COMING WEEKS AND MONTHS WILL HAVE TO COME TO GRIPS WITH QUESTIONS, SUCH AS THE ROLES OF CONSUMER COUNTRY GOVERNMENTS AND THE INTERNATIONAL OIL COMPANIES AND MEANS OF LIMITING FURTHER PRICE INCREASES, THAT THEY HAVE SO FAR BEEN UNWILLING TO EXPLORE IN DEPTH. IT IS ALSO IN THIS NEW LIGHT THAT THE WORK ON DEVELOPING AN OECD-WIDE EMERGENCY OIL-SHARING SCHEME, BOGGED DOWN FOR THE PRESENT BECAUSE OF PREOCCUPATION WITH THE IMMEDIATE SUPPLY SITUATION, WILL HAVE TO BE PUSHED FORWARD. WE CAN ALSO EXPECT TO HEAR MORE CALLS FOR DIRECT COOPERATION BETWEEN OECD AND OPEC COUNTRIES IN ORDER TO MEET THE LATTER'S NEEDS WITHOUT GRIEVOUS INJURY TO THE FORMER'S ECONOMIES; IT WOULD SEEM PREFERABLE THAT ANY SUCH FORMAL COOPERATION SHOULD BE DONE JOINTLY (IT COULD BE DONE THROUGH THE ORGANIZATION ITSELF) RATHER THAN BY OECD COUNTRIES SEPARATELY.

7. THE CHANGED CIRCUMSTANCES HAVE CLEAR CONSEQUENCES FOR THE OECD'S STUDY OF ENERGY PROBLEMS OVER THE LONGER TERM, WHICH HAS BEEN DESIGNED TO PRESENT POSSIBLE STRATEGIES FOR DEALING WITH THE SITUATION IN LIGHT OF ITS

COMPLEX ECONOMIC IMPLICATIONS, AS WELL AS FOR ITS PROJECT TO DEVELOP AN INVENTORY OF ENERGY R&D IN MEMBER COUNTRIES. THE ENERGY STUDY HAS ALREADY BEEN SPEEDED UP, AND ITS ASSUMPTIONS CHANGED, WITH A FIRST COMPREHENSIVE PRODUCT EXPECTED BY MARCH 1.

8. SEEN FROM THE OECD, THE ENERGY ACTION GROUP PROPOSAL PROVIDES A VEHICLE FOR FOCUSING HIGH-LEVEL ATTENTION ON THE BROAD SPECTRUM OF ENERGY-RELATED PROBLEMS, SUGGESTING NEW FORMS OF ACTION AND A NEW LEVEL OF CONCENTRATION. THE OECD SECRETARIAT HAS ALREADY BEEN GALVANIZED INTO A THOROUGH EXPLORATION OF HOW THE OECD'S FACILITIES AND EXPERTISE CAN BE RELATED TO AN EAG. THE OECD MEMBER COUNTRIES, INCLUDING THE U.S., WILL NOW HAVE AN OPPORTUNITY TO CONTRIBUTE FURTHER IDEAS ON THE SUBSTANCE OF COOPERATIVE ACTION INSIDE OR OUTSIDE THE OECD ITSELF. ROGERS

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